

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Robert G. Taub, Vice Chairman; and
Mark Acton

Notice of Market Dominant Price
Adjustment for Alternate Postage
Payment Method

Docket No. R2014-1

ORDER GRANTING CLASSIFICATION AND PRICE CHANGES FOR
ALTERNATE POSTAGE PAYMENT

(Issued December 20, 2013)

I. OVERVIEW

On November 5, 2013, the Postal Service filed a notice, pursuant to 39 U.S.C. § 3622 and 39 C.F.R. part 3010, proposing to add Alternate Postage Payment, currently an experimental product, as a new, permanent price category under First-Class Mail, Single-Piece Letters/Postcards.¹ The classification and price adjustment will permit producers of First-Class Mail, Single-Piece Letters/Postcards to prepay postage without the need for affixing a stamp. *Id.* at 2. The price adjustment is scheduled to take effect on January 1, 2014. *Id.* at 1. The Commission approves the proposal.

¹ United States Postal Service Notice of Market Dominant Classification and Price Changes for the Alternative Postage Payment Method, November 5, 2013 (Notice).

II. POSTAL SERVICE PROPOSAL

The Postal Service states that its proposal will permit producers of First-Class Mail, Single-Piece Letters/Postcards to prepay the mailer's postage without the need for affixing a stamp. *Id.* at 2. Customers need only address the letter or card and drop it in a collection box. *Id.* at 3. Its simplicity will make customers more likely to mail greeting cards and other correspondence. *Id.* Alternate Postage Payment will be a premium offering and will be priced above current First-Class Mail, Single-Piece Letters/Postcards postage rates. *Id.*

The Postal Service states that participating businesses will produce and distribute pre-approved envelopes and postcards according to specific design requirements established by the Postal Service and have the option of increasing the value of the pre-approved envelopes by applying a customized Picture Permit at no additional charge. *Id.* Postage will be paid by participating businesses in two stages: (1) an agreed-upon prefunded portion of the total postage when the mailpiece is produced or distributed, and (2) the remaining portion when the Intelligent Mail barcode (IMb) on the mailpiece is scanned during normal processing. *Id.* IMb technology will be used to identify and count each mailpiece during processing, and once scanned, the participating businesses' Centralized Automated Processing System (CAPS) account will be debited. *Id.* After purchasing the pre-approved envelopes from participating businesses, individual customers can then mail the item without using regular postage. *Id.*

The Postal Service proposes a tiered pricing approach. *Id.* at 5. The proposed pricing approach accommodates price tiers that require up to 20 percent, 21-50 percent, and over 50 percent of the postage to be prefunded. *Id.* The Postal Service also proposes to charge a slightly lower per-piece postage rate when companies choose a higher prefunding level, thus allowing businesses to choose a prefunding level based on their unique business needs. *Id.* It indicates the starting price differentials between tiers will be small, but may be adjusted in future filings based on customers' response.

The Postal Service provides the proposed pricing structure and requests that the Commission set the Alternate Postage Payment rates as described in the following table.

Table 1: Proposed Pricing Structure

Prefunded Postage	First-Class Mail, Single-Piece Letters	First-Class Mail, Single-Piece Postcards
Up to 20%	\$0.07 above approved rate	\$0.05 above approved rate
21-50%	\$0.06 above approved rate	\$0.04 above approved rate
51-100%	\$0.05 above approved rate	\$0.03 above approved rate

Id. at 6.

The Postal Service requests that the Commission set the Alternate Postage Payment rates as proposed by the Postal Service, e.g., \$0.05 above the approved price for First-Class Mail, Single-Piece Letters. *Id.* at 6. In the future, the Postal Service expects to propose specific Alternate Postage Payment rates. *Id.* n.9.

III. PROCEDURAL HISTORY

On November 8, 2010, the Postal Service filed notice of its intent to conduct a market test of an experimental product called “Alternate Postage Payment Method for Greeting Cards.”² The experimental product provides a means whereby individuals can mail greeting cards without the need to affix postage. *Id.* at 1. On December 21, 2010, the Commission issued an order approving the market test.³

² Docket No. MT2011-1, Notice of the United States Postal Service of Market Test of Experimental Product—Alternate Postage Payment Method for Greeting Cards, November 8, 2010.

³ Docket No. MT2011-1, Order No. 617, Order Approving Market Test of Alternate Postage Payment Method for Greeting Cards, December 21, 2010.

The market test began on January 2, 2011 and was set to expire on January 2, 2013.⁴ On November 21, 2012, the Postal Service filed a motion seeking to extend the duration of the market test beyond the 24-month statutory limit. *Id.* at 4. On December 13, 2012, the Commission granted the Postal Service's motion to extend.⁵

On November 5, 2013, the Postal Service filed a notice seeking to add Alternate Postage Payment as a permanent classification. On November 7, 2013, the Commission established Docket No. R2014-1, directed that the docket be noticed in the *Federal Register*, assigned a Public Representative, and established a deadline for filing comments.⁶

IV. COMMENTS

Comments were filed by the Public Representative and the Wilen Group.⁷

The Public Representative states that he has reviewed the record in this docket and the market test docket and finds that the proposal complies with the statutory and regulatory provisions governing changes to the product lists. PR Comments at 5. However, the Public Representative asserts that the Postal Service's characterization of the addition of Alternate Postage Payment, pursuant to section 3622, as a rate change is incorrect and that a rate case is an "inadequate vehicle" for evaluating whether Alternate Postage Payment should be added as a new product. *Id.* at 6-7. He compares Alternate Postage Payment to Every Door Direct Mail – Return, which was added to the market dominant product list pursuant to section 3642, and believes that Alternate Postage Payment should be analyzed under the same section. *Id.* at 7.

⁴ Docket No. MT2011-1, Motion of the United States Postal Service for Temporary Extension of Alternate Postage for Greeting Cards Market Test, November 21, 2012, at 1 (Motion to Extend).

⁵ Docket No. MT2011-1, Order Granting Motion Concerning Market Test, December 13, 2012 (Order No. 1577).

⁶ Order No. 1873, Notice and Order Concerning Market Dominant Classification and Price Changes for the Alternate Postage Payment Method, November 7, 2013.

⁷ Public Representative Comments on the Postal Service Notice Concerning Alternate Postage, November 22, 2013 (PR Comments); Comments on Docket No. R2014-1 on behalf of the Wilen Group, November 15, 2013 (Wilen Group Comments).

Despite his concern regarding the rules under which the new product was analyzed, the Public Representative concludes that Alternate Postage Payment likely satisfies both section 3622 and section 3642. *Id.* at 10.

The Public Representative also has concerns about a possible gap in the product's availability. *Id.* at 10-11. The Alternate Postage Payment market test will expire upon Commission approval of the product. *Id.* This would create a gap between the market test ending and the permanent offering of the Alternate Postage Payment product. *Id.* at 11. He suggests extending the market test so that it expires the day the Alternate Postage Payment product would become a permanent offering (January 1, 2014). *Id.* Finally, the Public Representative notes minor issues with the pricing structure and Mail Classification Schedule (MCS) language. *Id.* at 11-12.

The Wilen Group supports the Postal Service's proposal and urges the Commission to approve it. Wilen Group Comments at 1. A division of Wilen Group creates and distributes gift cards and would utilize the new classification. It estimates that Alternate Postage Payment will generate over one million new pieces of First-Class Mail in the first two years of operation. *Id.*

V. COMMISSION ANALYSIS

The Postal Service's proposal raises the issue of whether it is consistent with the requirements of title 39 and the regulations promulgated thereunder. The Public Representative raises issues regarding the treatment of the proposal, expiration of the Alternate Postage Payment market test, and the pricing structure and MCS language. These issues are analyzed separately below.

A. Consistency with Title 39

The Postal Service explains how its proposal to add Alternate Postage Payment as a price category under First-Class Mail, Single-Piece Letters/Postcards helps achieve the objectives of section 3622(b) and properly takes into account the factors of section 3622(c). Notice at 10-11. The Public Representative argues that the Postal

Service's proposal satisfies section 3622. PR Comments at 10. The Wilen Group endorses the Postal Service's proposal and urges the Commission to approve it. Wilen Group Comments at 1.

The Commission finds that the proposal is consistent with the objectives and factors of the Postal Accountability and Enhancement Act (PAEA). Notably, the new price categories demonstrate the Postal Service's increased flexibility under the PAEA. See 39 U.S.C. § 3622(b)(4). The proposal is also expected to enhance the financial position of the Postal Service. See *id.* § 3622(b)(5). By enhancing First-Class Mail, Single-Piece Letters/Postcards, the proposal also increases the value of First-Class Mail service and will help First-Class Mail cover its attributable costs. See *id.* § 3622(c)(1) and (2).

Citing Order No. 1460, the Postal Service asserts that its proposal has no impact on the Consumer Price Index-All Urban (CPI-U) price cap. Notice at 6. The Commission agrees. There is no change in price, and there is no shift in volume between price categories. Accordingly, there is no change in rates pursuant to 39 C.F.R. §§ 3010.23(c) and (d).

In addition, as the Postal Service states, the proposal does not impact workshare discounts for First-Class Mail or implicate any preferred rates. *Id.* at 11.

Based on a review of the record in this proceeding, the Commission concludes that the proposal is consistent with the requirements of title 39.

B. Other Issues

The Public Representative raises three issues. First, he argues that the proposal should be treated as a mail classification change rather than a rate adjustment. PR Comments at 6-9. Second, he contends that the status of the Alternate Postage Payment market test is problematic, and its expiration date should be extended to January 1, 2014. *Id.* at 11. Third, he notes minor problems with the pricing structure and MCS language. *Id.* at 11-12. These issues are analyzed separately below.

1. Treatment of Proposal

The Public Representative argues that the Postal Service's proposal should also have been filed as a classification change pursuant to 39 U.S.C. § 3642. *Id.* at 6-9. He cites several instances during the market test in which the Postal Service treated Alternate Postage Payment as a product. *Id.* at 6. He discusses the statutory and regulatory framework behind 39 U.S.C. §§ 3622 and 3642 and notes that in practice, the Postal Service often proposes changes to both rates and product offerings. *Id.* at 7-8. He asserts that the authority to propose changes in product offerings in rate proceedings should be limited to cases where the change to the product offering is minor, technical, or incidental to the change in rate. *Id.* at 8-9. He concludes that the Postal Service's proposal satisfies section 3622 and likely satisfies section 3642 as well. *Id.* at 10.

The Public Representative raises a valid point. 39 U.S.C. § 3641 permits the Postal Service to conduct market tests of experimental products. If such tests prove successful, the Postal Service may, pursuant to 39 U.S.C. § 3642, seek to add that product to the market dominant or competitive product list as appropriate. Experimental products may only be offered subject to certain conditions. See 39 U.S.C. § 3641(b). Necessarily, experimental products satisfy the definition of the term product. *Id.* § 102(6) ("a postal service with a distinct cost or market characteristic for which a rate or rates . . . may reasonably be, applied").

Reviewing a request to make an experimental product permanent, *i.e.*, to add it to the market dominant or competitive product list, serves an important statutory safeguard. First, the criteria to add a product differ from the conditions applied to experimental products. Compare 39 U.S.C. § 3641(b) with § 3642(b). Stated otherwise, the Postal Service has considerable latitude, albeit subject to some conditions, when choosing to offer an experimental product. Proposals to add a product to the product list are subject to a different regulatory review.

Second, some market tests may involve experimental products which raise controversial issues.⁸ While that is not the case with the instant proposal, it is nonetheless an important safeguard to require, as section 3642 does, that when the Postal Service seeks to make an experimental product permanent it must make an appropriate filing under section 3642.⁹ Future requests to make an experimental product permanent must also be filed pursuant to 39 U.S.C. § 3642 and related Commission regulations. 39 C.F.R. § 3020.30 *et seq.*

2. Expiration of the Market Test

The Public Representative states that in the Postal Service's Motion to Extend the market test, the Postal Service asked the Commission to extend the market test "until such time as the Commission acts upon the forthcoming request...to permanently add this product to the market-dominant product list...." PR Comments at 10-11. He notes that the Commission granted the Motion to Extend and, in doing so, approved the Postal Service's request to extend the market test until the Commission acted upon its request to add Alternate Postage Payment to the market dominant product list. PR Comments at 11. He notes that this is problematic for two reasons. First, the Postal Service did not file a request to add Alternate Postage Payment to the market dominant product list. *Id.* Moreover, if the Commission were to construe the Postal Service's proposal as such a request, the market test would expire upon issuance of the Commission's order in this docket, creating a gap between the market test and the permanent offering. *Id.* He supports the Commission extending the expiration date of the market test to January 1, 2014. *Id.*

⁸ See, e.g., Docket No. MC2012-31, Order Approving Addition of Postal Services to the Mail Classification Schedule Product Lists, September 7, 2012, at 11 (Order No. 1460).

⁹ The lack of such a filing in this instance does not preclude the Commission from authorizing the addition of Alternate Postage Payment to the market dominant product list. The Public Representative ably addresses how the proposal satisfies section 3642 (PR Comments at 9-10), and the Commission agrees with that analysis.

This market test began on January 2, 2011, and, prior to the extension of the market test, was set to expire on January 2, 2013.¹⁰ In Order No. 1577, the Commission granted the Postal Service's Motion to Extend. *Id.* at 4. The Motion to Extend indicated that the Postal Service anticipated filing its request to make the experimental product permanent "sometime early in 2013," and requested that the extension be approved "until such time as the Commission acts upon the forthcoming request of the Postal Service to permanently add this product to the market-dominant product list[.]" Motion to Extend at 1, 4.

Pursuant to section 3641(d)(2), market tests may be extended beyond a duration of 24 months for up to an additional 12 months provided the Postal Service makes an appropriate showing that the extension is necessary to determine the feasibility or desirability of the product being tested. The Commission reads Order No. 1577 as extending the instant market test through January 2, 2014, 12 months beyond the end of the initial 24-month test period. Accordingly, it finds it unnecessary to extend the expiration date of the market test.¹¹

Based on its review of the pleadings, the Commission concludes that continuity of the Alternate Postage Payment market test is desirable and that the extension requested is a reasonable way to achieve it.

3. Pricing Structure and MCS Language

The Public Representative notes that Table 1 of the Notice may not cover all possible advanced payment levels. PR Comments at 11. While that may be true of Table 1, the proposed rate schedule to be included in the MCS appears to identify all percentage possibilities. See Notice, Attachment A at 3.

¹⁰ Order No. 1577 at 2.

¹¹ In this Order, the Commission is approving the addition of Alternate Postage Payment to the market dominant product list. That approval does not mark the end of the market test. Rather, it simply allows the Postal Service to offer Alternate Postage Payment as a permanent product at the proposed rates as of the scheduled effective date, *i.e.*, January 1, 2014. Coincident with that approval, this Order provides for the removal of the Alternate Postage Payment market test and related classification language from the market dominant product list and MCS.

Lastly, the Public Representative suggests the rate schedules included in the MCS specify the base rate applicable to each Alternate Postage Payment pricing tier. The MCS language proposed by the Postal Service appears to contemplate showing only the combined price, *i.e.*, the sum of the prevailing First-Class Mail letter or card price, plus the additional per-piece charge as specified by tier.

The Postal Service may suggest whatever rate schedule format it chooses. For illustrative purposes, the MCS language attached follows the format set forth in Attachment A to the Postal Service's Notice. The prices shown reflect prevailing First-Class Mail, Single-Piece Letters/Postcards rates plus the applicable per piece tier charge. To the extent that different First-Class Mail, Single-Piece Letters/Postcards rates also apply, they should be separately noted. Within 10 days of this Order, the Postal Service shall file a revised rate schedule showing the applicable rates (as of January 1, 2014), for Alternate Postage Payment.

VI. MAIL CLASSIFICATION SCHEDULE

The Postal Service proposes several changes to the MCS. It proposes to add Alternate Postage Letters and Postcards as a price category under First-Class Mail, Single-Piece Letters/Postcards. Notice, Attachment A. It also proposes to add Picture Permit Imprint Indicia (Alternate Postage Only) as an optional feature. *Id.* The proposed MCS language includes a table with prices for Alternate Postage Letters and Postcards with two footnotes regarding eligibility and payment requirements. *Id.* The proposed language adds a sentence to the definition of Postage and Fee Payment stating that when postage is paid by a customer with an authorized Postal Service account, postage payment may be deferred until the mail is verified to be in the mailstream. *Id.*

The Commission approves the MCS language. Changes to the draft MCS appear below the signature line of this Order.

VII. ORDERING PARAGRAPHS

It is ordered:

1. The Commission approves the addition of Alternate Postage Payment to the market dominant product list as a price category under First-Class Mail, Single-Piece Letters/Postcards.
2. Within 10 days of this Order, the Postal Service shall file a revised rate schedule showing the applicable rates (as of January 1, 2014), for Alternate Postage Payment.
3. The product list and Mail Classification Schedule will be modified effective January 1, 2014 as discussed in the body of this Order and as shown below the signature line of this Order.
4. The Secretary shall arrange for publication in the *Federal Register* of an updated product list reflecting the change made in this Order.

By the Commission.

Ruth Ann Abrams
Acting Secretary

CHANGE IN PRODUCT LIST

The following material represents changes to the product list codified in Appendix A to 39 C.F.R. part 3020, subpart A—Mail Classification Schedule. These changes reflect the Commission's order in Docket No. R2014-1. The Commission uses two main conventions when making changes to the product list. New text is underlined. Deleted text is struck through.

Part A—Market Dominant Products

1000 Market Dominant Product List

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Market Tests

~~Alternate Postage Payment Method for Greeting Cards~~

CHANGE IN MAIL CLASSIFICATION SCHEDULE

1000 Market Dominant Product List

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Market Tests*

~~Alternative Postage Payment Method for Greeting Cards~~

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1001 Market Dominant Product Descriptions

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1100 First-Class Mail

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1105 Single-Piece Letters/Postcards

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1105.3 Price Categories

The following price categories are available for the product specified in this section:

- Machinable Letters
- Nonmachinable Letters – Either have an aspect ratio that does not fall between 1 to 1.3 and 1 to 2.5 inclusive or do not meet other machinability requirements
- Qualified Business Reply Mail (QBRM) Letters
- Residual Machinable Letters
- Postcards
- Qualified Business Reply Mail (QBRM) Postcards
- Alternate Postage Letters and Postcards

1105.4 Optional Features

The following additional postal services may be available in conjunction with the product specified in this section:

- Ancillary Services (1505)
 - Address Correction Service (1505.1)
 - Business Reply Mail (1505.3)
 - Certified Mail (1505.5)
 - Certificate of Mailing (1505.6)
 - Collect on Delivery (1505.7)
 - Insurance (1505.9)
 - Registered Mail (1505.12)
 - Return Receipt (1505.13)
 - Restricted Delivery (1505.15)
 - Special Handling (1505.18)
 - Stamped Envelopes (1505.19)
 - Stamped Cards (1505.20)
 - Premium Stamped Stationery (1505.21)
 - Premium Stamped Cards (1505.22)
- Competitive Ancillary Services (2645)
 - Package Intercept Service (2645.2)
- Picture Permit Imprint Indicia (Alternate Postage Only)

1105.5 Prices

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Alternate Postage Letters and Postcards¹

<u>Maximum Weight (ounces)</u>	<u>Upfront Postage Payment²</u>	<u>Alternate Postage Letters (\$)</u>	<u>Alternate Postage Postcards (\$)</u>
<u>1</u>	<u>Below 21%</u>	<u>\$0.54</u>	<u>\$0.38</u>
	<u>21 – 50%</u>	<u>\$0.53</u>	<u>\$0.37</u>
	<u>Over 50%</u>	<u>\$0.52</u>	<u>\$0.36</u>

Notes

1. To qualify for Alternate Postage, customers must meet and comply with all eligibility requirements of the program.
2. To qualify for Alternate Postage, companies pay an agreed upon portion of the required postage at the time they print or distribute pre-approved mailpieces containing an Intelligent Mail barcode (IMb). The remainder of the postage is subsequently collected when a pre-approved mailpiece is placed in the mailstream and scanned during processing.

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1800 Market Tests

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~~1801—Alternate Postage Payment Method for Greeting Cards~~

~~Reference~~

~~Docket No. MT2011-1~~

~~PRC Order No. 617, December 21, 2010~~

~~Expires~~

~~January 2, 2014~~

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3000 Glossary of Terms and Conditions

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3017 P

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Postage and Fee Payment

Postage and fees must be fully prepaid on all domestic mail at the time of mailing, except as authorized by law or this Schedule. Except as authorized by law or this Schedule, domestic mail deposited without prepayment of sufficient postage shall be delivered to the addressee subject to payment of deficient postage, returned to the sender, or otherwise disposed of as specified in the Domestic Mail Manual. Parcel Select Return Service mail may be retrieved by the permit holder prior to payment of postage, as specified in the Domestic Mail Manual. Matter authorized for mailing without prepayment of postage must bear markings identifying the class of mail service. Matter not so marked, or ineligible for the service marked, will be billed at the applicable price of postage for First-Class Mail or Priority Mail, depending on weight. Mail deposited without any postage affixed will be returned to the sender without any attempt at delivery. When postage is paid by a customer with an authorized Postal Service account, postage payment may be deferred until the mail is verified in the mailstream.